

## Sales and Excise Tax Meeting 2/19/2007

The Sales and Excise Tax Subcommittee met in Room 415 of the LOB on 2/19/2007 at 1:00 p.m. Chairman Tom Ross and members Linda Jones, Randy Fraiser, Senator Pete Brunstetter and Dan Gerlach were in attendance. A visitors list is attachment #2.

Ben Russo explained many handouts that were sent to committee members via email over the previous days starting with the Excise on Motor Fuels chart. (Attachment #3) The data explains that sales tax on gas would generate a tremendous amount of revenue for the state and would allow the overall sales tax to be lowered. Sabra Ferris suggested that collecting sales and excise tax on gas would be difficult because it would be easy to cheat the system. She has been invited to the next meeting on March 8<sup>th</sup> to hopefully explain. At the present time, our motor fuel tax is split between the Highway Trust Fund for road construction and the Highway Fund for road maintenance. There was some discussion among the group regarding basing the tax on usage of gasoline purchased. This method would seem to be a fair way to access the tax since these folks are using the roads more and this system would keep up with inflation in lieu of the current system where vehicles become more fuel efficient each year with new technology.

The alcohol tax was then discussed and attachment # 4 was explained. The US median tax on beer is 18.8 cent a gallon with NC assessing a .53 per gallon excise tax plus the sales tax.

The Tobacco tax in NC is currently .35 per pack and is not a percentage tax, which is still considered low in the US. Unfortunately, inflation undermines the tax base. The higher cost of cigarettes results in many smokers quit smoking. Attachment #5

### The Excise Tax on Wine and Liquor

NC charges .79 per gallon on unfortified wine and .98 per gallon on fortified wine plus the sales tax. This tax, much like the tax on tobacco is eroded by inflation. Liquor is harder to compare state to state because NC and VA base the tax on percentage and all other states are per gallon. The committee questioned why NC treats beer and wine different than liquor in terms of taxes. If we move towards percentage/ad valorem taxes on all these items it would take the variability and erosion away. This approach at the wholesale and distribution level would increase the tax revenue and make the procedure uniform for all alcoholic beverages. Attachments #6 and #7

The general consensus of the group was if you move to percentage/ad valorem tax on the items currently taxed with excise taxes the variability would be taken away. If inflation drives the price up then the sales go down, the ad valorem method will still produce the same amount of tax revenue. This procedure would keep up with inflation automatically and eliminate the need for the legislature to change the laws. To tax the percentage and then add sales tax would be double taxation, so the excise tax should be backed out before adding the sales tax to the total for the distributors of these products.

Carl demonstrated the new improvements in the tax calculator and several scenarios were run.

The meeting concluded with a brief discussion on where the committee stands and what concepts are agreed upon to place before the full committee on March 12. These concepts are:

- 1.) The need to broaden the tax base of the sales tax to include services.
- 2.) There should be no exemptions of any kind of services from the base.
- 3.) There are significant implementation issues in expanding the sales tax base to include services yet to be examined and additional time is needed to undertake this work.
- 4.) The need to eliminate differential rates in the sales tax as well as exemptions.
- 5.) If the sales tax is broadened to include all services, this will enable NC to enjoy a substantially lower sales tax rate while giving the state the ability to better balance revenue among sales tax and personal income tax. This approach could also allow the state to consider eliminating the corporate income tax.
- 6.) North Carolina should move all excise taxes to an ad valorem method. In making this change, the state may wish to consider not including the excise tax in the price of goods to which any sales tax is applied.
- 7.) North Carolina should consider including privilege taxes such as sales/use taxes or eliminate them all together since there are so few.

The meeting adjourned at 3:25 and we are scheduled to meet again on March 1, 2007 at 12:00 in Room 424.